



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-07-07

AUDIT OF THE
LICENSE AND REVENUE
BRANCH

OCTOBER 2008



Memorandum

To: H. Carriker
Assistant Deputy Director, Fiscal
Administrative Division

Date: October 17, 2008

From: Brian A. Kwake
Department of Fish and Game

Audit Control Number
WA-07-07

Subject: Audit of the License and Revenue Branch

Attached is the final audit report for the License and Revenue Branch (LRB) for the period January 1, 2007 through November 30, 2007. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game (DFG). The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

The draft audit report was issued May 9, 2008. We received your October 8, 2008 response to the draft audit report and wherever possible included your entire comments in the body of this audit report. Additionally, your full response has been incorporated as an attachment.

We would like to thank the LRB staff for their time and cooperation. Should you have any questions, please contact Meredith Taylor at (916) 445-3367.

Attachment

cc: J. McCamman
C. Jones
J. Fong
Audit File

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DEPARTMENT OF FISH & GAME
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SUMMARY

At the request of the Department of Fish and Game's (DFG) License and Revenue Branch (LRB) Chief, the Audits Branch (AB) performed an audit of the operations of the LRB including its cashiering and licensing functions, regional office and license agent oversight, inventory controls, data network administration of the cashiering system, and other areas as necessary. The audit was conducted to determine whether the internal accounting and administrative controls were satisfactory, and to determine whether the LRB could account for sales revenue and its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except for the following areas:

- The LRB had missing license inventory (Finding 1).
- Warehouse inventory controls should be improved (Finding 2).
- Regional office oversight functions were not always performed (Finding 3).
- Physical security controls were deficient (Finding 4).
- Duties at the warehouse, special permits unit, and central cashiering were not properly separated. (Finding 5)
- Cashiering controls did not always ensure that front counter customer service representatives (CSRs) properly recorded their cash or check sales, nor did the controls minimize the number of overages/shortages recorded by the CSRs (Finding 6).

BACKGROUND

The AB was requested to perform this audit by the newly appointed LRB Branch Chief. Because of changes that directly affected the LRB, the LRB Branch Chief requested the AB perform this audit in order to provide a level of assurance that LRB is continuing to operate at a satisfactory level. These changes included the LRB relocating to a new office during the 2006 calendar year, changes in LRB staff, and some new security features were implemented at the new location.

During the calendar year 2006, LRB moved its entire operations from 3211 S Street, Sacramento, California to its new location at 1740 North Market Street, Sacramento, California. In-addition, a new Branch Chief was appointed to assume the duties over the LRB. The LRB is responsible for the sales and distribution of licenses, permits, tags, and stamps to the general public, regional offices, and license agents. Also, the LRB is responsible to order and maintain the inventory of licenses, permits, tags, and stamps needed by the DFG to regulate the State's fish and wildlife resources, and is responsible to key enter data into the License Agent System (LAS). The LAS tracks inventory consigned to license agents, regional offices, and the LRB.

Public sales requests are handled in person through the LRB's front counter operations or through the mail, fax, or phone through any one of various specialized units. These units are commercial, lifetime, and special permits units.

The commercial unit primarily handles sales to the commercial fishing industry, while the lifetime unit handles sales to the general public and the Fish and Game Commissioners. Lifetime licenses are issued to individuals for both sport fishing and hunting. The special permits unit sells a wide range of licenses and permits including game bird breeders, falconry, and limited hunts.

In-addition to sales to the general public, the LRB is responsible for the distribution and oversight of sales at the 11 DFG regional and local offices. These offices make sales to the general public. Further, the LRB is responsible to approve and monitor approximately 2080 independent license agents who make sales to the general public on behalf of the DFG. As part of its monitoring responsibilities, the LRB is responsible to key enter inventory consignment information for each license agent into the LAS. License agents include large retail operators such as KMart and Wal-Mart, as well as small independent stores.

Lastly, the LRB is responsible to order the appropriate number of licenses, permits, tags, and stamps needed to assist the DFG with its regulatory responsibilities, and stores these items in a warehouse located next to its main office in Sacramento, California.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB reviewed the LRB's cashiering and licensing functions, regional office and license agent oversight, inventory controls, data network administration, and other areas as necessary for the period of January 1, 2007 through November 30, 2007. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

Our study and evaluation included a review of applicable laws and regulations as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, documenting and evaluating adequate separation of duties, performing compliance testing of the license sales function, and verifying inventories.

Physical inventory audit reports were obtained for all inventories at LRB. Inventories assigned to the Front Counter, Commissions account, and inventory kept in stock in the warehouse through January 7, 2008 were physically counted and compared to the inventory audit reports. Reports included years 2000, 2004, 2005 and 2006 expired inventory as well as valid 2007 inventory. For any items that could not be found during the physical count, a review of the consigned license reports, partial book reports, sales reports, as well as records of inventory transferred to the compliance unit was conducted including items sent to confidential destruct. Items that were identified as sent to the compliance unit or confidential destruct were counted as located.

The objectives of the audit were to provide the DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure sales transactions were properly authorized, supported, recorded, and deposited. Areas tested included the front counter, license agent, commercial, special, and lifetime sales units.
- Controls were adequate to ensure accountability for inventories stored in the warehouse or consigned to the front counter, commercial, special, or lifetime units. Also ensured the accountability of inventories consigned to CSRs and license agents.

- Oversight controls were adequate to ensure the accountability of inventories consigned to the DFG's regional offices and license agents.
- Controls over the automated cashiering system were adequate.

CONCLUSION

In our opinion, the LRB's internal accounting and administrative control structure over cashiering, licensing, regional office oversight, license agent oversight, inventory controls, and data network administration in effect at November 30, 2007, taken as a whole, were adequate to ensure the prevention or detection of errors or irregularities, except for the weaknesses described in the Findings and Recommendations Section of this audit report.

Brian A. Kwake, Chief
Audits Branch

October 17, 2008

Audit Staff: Meredith Taylor

FINDINGS

AND

RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

FINDING 1 MISSING INVENTORY

The LRB must improve its inventory controls. Over \$403,727 in licenses, permits, tags, and stamps could not be located out of a total license inventory valued at \$135,695,063. During our physical inventory of all licenses, permits, tags, and stamps consigned to the various units and employees of the LRB, including the warehouse, we were unable to locate \$115 in inventory from 2000, \$75 in inventory from 2004, \$77,200 in inventory from 2005, \$324,740 in inventory from 2006, and \$1,597.50 in inventory from 2007. Specifically, we disclosed the following:

- The commissioners account was unable to locate over \$190 in missing licenses and permits from 2000 and 2004.
- The warehouse was unable to locate \$403,360 in missing licenses and permits from 2005, 2006 and 2007.
- The front counter unit was unable to locate over \$177 in missing licenses and permits from 2007.

The LRB has a designated inventory custodian for the units within LRB. The designated inventory custodian is responsible for ordering inventory for those units' general consignments. This individual is also responsible for consigning inventory to the CSRs from that general consignment when needed and tracking all inventories. Accordingly, LRB was able to assign responsibility of the missing inventory to the CSR it was consigned to.

However, there is no inventory custodian assigned to the warehouse, and all warehouse staff have access to all inventory in the warehouse. As a result, assigning responsibility and identifying missing or misplaced inventory is not possible.

The California Government Code (CGC), Section 13402, requires that a satisfactory system of internal accounting and administrative control include a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

RECOMMENDATION

The LRB should attempt to locate the missing inventory. If the inventory cannot be located, management should remove the missing inventory using the declaration process. Thereafter, management should ensure its internal control system is adequate to track all inventories, assign responsibility, and to promptly identify missing or misplaced inventory.

To accomplish this, the AB recommends the LRB determine whether it is cost beneficial to continue to run the warehouse without an inventory custodian or as a practical matter, the LRB should consider assigning an individual the responsibility of warehouse inventory custodian.

LRB

Response: Agree. The LRB has improved our inventory controls. We disagree that the \$403,000 could not be located. Of the \$403,000 in missing licenses and permits, only \$1,420 was unaccounted. The remaining \$401,940 inventory was accounted and verified after these items were expired or near expired:

2005 hunting item: \$77,200. Reviewed and verified on May 8, 2006.

2006 hunting item: \$324,740. Reviewed and verified on July 12, 2007 and September 27, 2007.

The \$401,940 was not missing inventory, but merely a lack of proof of destruction.

The LRB cannot locate our destruction records of these expired licenses and permits. We have improved our record keeping of destroyed inventory using revised logs, spreadsheets, and having additional authorized signatures. The LRB will review whether there should be a warehouse inventory custodian.

AB

Comments: LRB's response to improve inventory controls and maintain sufficient inventory destruction records satisfactorily addresses our recommendations. The AB acknowledges that most of this inventory is currently expired, however, at the time of our field work, these licenses were listed as inventory on the LAS system. Since LRB cannot locate documentation showing the final disposition of this license inventory, we continue to recommend LRB remove this license inventory from the LAS system.

FINDING 2 INVENTORY CONTROLS

The LRB needs to improve internal controls relative to its warehouse inventory. Specifically:

- Physical inventories were not performed by independent third parties. No individual or group performed an independent physical count of the consignment of licenses, permits, tags, and stamps stored in the warehouse. At the end of a season when the licenses, permits, tags, and stamps expire, a warehouse staff person is asked to verify the expired inventory; however, no third party verifies the accuracy of these counts. As a result, these counts do not provide management reasonable assurance that inventory in the warehouse reconciles to inventory records.
- The LRB does not adequately protect partial books that contain valid licenses and permits. The concern is that these partial books are no longer inventoried, yet contain valid licenses and permits that are susceptible to loss, theft, or misappropriation.

Regional offices and license agents return to LRB partial books that contain valid licenses and permits. Returning partial books with valid licenses and permits is part of LRB's reconciliation process. Regional offices must submit their partial book reports at least monthly; however, more frequent submissions are acceptable. License agents return partial books with valid permits when they go out of business, when they discontinue selling departmental products, or when requesting a refund. These books are temporarily stored in the LRB cashing office or in the compliance unit. When stored in these areas, the partial books are accessible to almost all employees of the LRB. Eventually, the partial books are moved and stored in the warehouse where access is somewhat limited.

As a result, the LRB could not account for all of DFG's licenses, permits, tags, and stamps. Furthermore, the LRB cannot provide management with assurance that consigned inventories can be reconciled. Consequently, the LRB has increased risk of inventory theft or abuse that may go undetected.

The CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative control include a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

RECOMMENDATION

The LRB should have independent third parties perform physical inventories of stored licenses, permits, tags, and stamps assigned to the warehouse. These physical inventories should be performed at least semi-annually in accordance with the LRB's policies, and the physical inventory should be reconciled with the balances per the LAS. In-addition, the LRB needs to limit access to partial books that still contain valid licenses, stamps, and permits.

LRB

Response: Disagree. The LRB currently performs a physical inventory in accordance with the LRB's policies. In addition, the LRB has an inventory control procedure called "Blue Lining". Blue lining is a cost effective way to deter fraud by defacing inventory (drawing a permanent lube marker across all current licenses, stamps, cards, etc.). Unauthorized individuals (internal and external) cannot use or sell these blue lined items in the black market. All license agents are encouraged to blue line each item returned to the LRB. If the items are not blue lined when it reaches the LRB, the LRB staff blue lines each item. The Chief of Enforcement is fully aware of this procedure to ensure hunters and anglers are not using blue lined licenses, stamps, and permits. The LRB implemented this procedure on November 15, 2006, and informed the Chief of Enforcement, Deputy Directory of Administration, and the Assistant Deputy Director of Fiscal. On May 30, 2008, the LRB sent a reminder to the Chief of Enforcement of this on-going procedure. The license agents received notification of the blue line procedure from the License Agent News letter in June 2008 and it is also stated in the License Agent manual. Although this inexpensive approach is not a perfect system, the LRB disagrees that "LRB does not adequately protect partial books that contain valid licenses and permits."

The LRB will review the recommendation of having a third party perform physical inventories.

AB

Comments: We do not concur with LRB's response. Although LRB uses a "blue line" void process, the AB does not believe this to be an adequate license inventory voiding system. The AB observed that only the top copy of the multiple copy license is marked. The licenses are not rendered useless. Unless someone specifically knew what the "blue" line meant, the licenses could still be stolen, used, or sold. The AB acknowledges that the LRB has notified the Legal Enforcement Division about the "blue line" void process. However, subsequent field work disclosed wardens may not have been notified. According to wardens we interviewed that perform field license checks, they were not aware of nor been notified of this "blue line" void process. An improved method to render licenses useless would be to use a hole punch machine that spells "void" and stamp licenses en mass, or cut the licenses in half.

FINDING 3 REGIONAL OFFICE OVERSIGHT

The LRB needs to improve its regional office oversight. The LRB does not always require regional offices to submit monthly partial book reports and expired inventory books.

The monthly partial book reporting process is a system established by the LRB in order to reconcile sales to inventory consignments. The cashiering system identifies sales during a specified time period to the books by serial numbers. At least monthly, regional offices and the LRB should reconcile the actual sales to returned books.

Further, the LRB does not always require regional offices to periodically return expired books. Currently for license agents with consignments, the LRB uses a 30, 60, and 90-day follow-up letter asking license agents to return their expired books or to pay for the outstanding licenses. If the licenses or payments are not received after 120-days, the agents' accounts are placed on hold and no subsequent shipments of licenses are allowed. However, for regional offices, no follow-up occurs after the 90 day letter to ensure that the inventory has been returned to LRB. There are written procedures for this process in License and Revenue Memo 01-02; however, staff do not follow this procedure and the memorandum was not included in LRB's recent Policies and Procedures manual updated in January 2007.

According to the *Cash Register an Cash Transfer Policies and Procedures* manual, page 20, the regional offices are required to prepare sales (partial book) reports and return them to the LRB for processing. Additionally, the CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative control include a method of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Until the LRB ensures regional offices submit the monthly partial book reports and expired books, LRB increases the risk of not detecting license books that are lost, stolen, or misplaced.

RECOMMENDATION

The LRB should ensure the regional offices submit partial book reports monthly and expired books at least quarterly. The LRB should follow its policies and procedures as outlined in the License and Revenue Memo 01-02 and take progressive action against non-compliant regional offices.

LRB

Response: Agree. The LRB will request assistance from the executive committee to enforce the LRB's Policies and Procedures for Regional Office's counter sales.

AB

Comments: The LRB response satisfactorily addresses our recommendation.

FINDING 4 SECURITY VIOLATIONS

As disclosed below, the LRB's physical security over licenses, permits, tags, and stamps needs to be improved.

- The entry door to the secure area of the warehouse that contains current valid inventory was propped open by staff.
- Access to the gated area in the warehouse was not properly protected. The auditor observed the gate was left open to the secured area and staff from the license support unit and the auditor gained access without being escorted.
- Valid partial books were left unattended by staff. On four separate occasions staff in the compliance unit left valid partial books on their desks unattended while on breaks allowing access to passersby.
- CSR's were away from their desks on two separate occasions and left their inventory drawers unlocked.
- CSR's were away from their desks on four separate occasions and did not log out of their computers leaving access to the cash drawers available. The auditor was able to gain access to the cash drawers by pressing the cash key.
- A tin containing keys to the front counter area and master keys was found at a desk unattended and accessible to all staff in the area. The location of the tin was known to all staff at the front counter.
- All LRB staff have access to the mail room. The mail room contains incoming mail with checks, money orders, and sometimes cash as well as returned inventory from regional offices and license agents.

In-addition, the LRB's security in the central cashiering area needs to be improved. Specifically, the combination to the safe has not been changed in one year. Since that time, staff have left who have had access to the safe. Further, there are no records documenting when the combination was last changed.

It appears some of the staff of the LRB have become “desensitized” to the intrinsic value of the licenses, permits, tags, and stamps in their possession. These accountable documents are treated as “pieces of paper” that have no value rather than documents that convey legal rights and privileges that must be protected.

Because of the security violations within the LRB, it is possible that licenses, permits, tags, stamps, and cash can be lost, stolen, or misplaced. Further, if

these items are lost, stolen, or misplaced it will be virtually impossible to place accountability to any one individual or unit.

The CGC, Section 13402, requires that a satisfactory system of internal accounting and administrative controls include a method to limit access to State assets to only authorized personnel.

The State Administrative Manual (SAM), Section 8024, requires the combination to safes and vaults housing either cash or valuable documents be known to as few persons as possible consistent with operating requirements and the value of the cash or documents safeguarded. A record will be kept showing the date the combination was last changed and the names of persons knowing the present combination. Further, the combination will be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the agency, or no longer requires the combination in the performance of his or her duties.

The *Cash Register and Cash Transfer Policies and Procedures Manual*, page 21 to 22 requires in LRB the combination to safes will be known to the head cashier, backup cashier, and two supervisors. A record will be kept showing the date the combination was last changed and names of persons knowing the present combination. The combination will be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the agency, or no longer requires the combination in the performance of his or her duties.

RECOMMENDATION

The LRB should improve its physical security procedures and ensure the combination to safes be known to the head cashier, backup cashier, and two supervisors. A record should be kept showing the date the combination was last changed and names of persons knowing the present combination. The combination should be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the agency, or no longer requires the combination in the performance of his or her duties. In-addition, the LRB should ensure proper

physical security is exercised in minimizing access to the mail room and protective procedures relative to secure locations within the warehouse are followed.

LRB

Response: Agree. The LRB changed the combinations to the safes on April 24, 2008. A log showing the date the combination was last changed and the names of the persons knowing the combination is located in the LRB's Administrator Officer's office.

AB

Comments: The LRB response relative to the safe combination satisfactorily addresses our recommendation. The AB continues to recommend LRB improve its general physical controls at the cashiering area, mailroom, and ensure protective procedures relative to secure locations within the warehouse are followed.

FINDING 5 SEPARATION OF DUTIES

The LRB does not always properly separate its employees' duties. During our review we disclosed improper separation of duties at the central cashiering room, the special permits unit, and the warehouse. Specifically:

- Two employees in the central cashiering unit open the mail, batched checks, batched monthly sales reports, and reconciled remittance information to check totals.
- One employee in the central cashiering unit prepares the deposits and performs the reconciliation of the collection reports with the deposits.
- The same individual in the special permits unit reviews applications for the Restricted Species licenses, enters the information into the issuing data base, and prints the license from her desk.
- The same individual in the warehouse pulled, checked and shipped orders.

While some of the cause can be attributed to staffing shortages, most of the problem is that management is not aware of what constitutes proper separation of duties and no one has ever communicated a concern with their current staffing responsibilities related to the special permits unit. In-addition, it appears that some of the staff of the LRB have become "desensitized" to the intrinsic value of the licenses, permits, tags and stamps in their possession. These accountable documents are treated as "pieces of paper" that have no

value rather than documents that convey legal rights and privileges that must be protected. This issue was previously reported in audit report number WA-00-05 dated February 21, 2001, and WA-03-11 dated, June 2004.

As a result of the improper separation of duties, the LRB is susceptible to possible fraud and abuse that may go undetected.

SAM, Section 8080.1, requires that the LRB adequately separate cash collection functions. Duties that must be segregated include the maintenance of record files, the receipt and depositing of remittances, the inputting of receipt information, and the reconciliation of input to output. Further, the CGC, Section 13402, requires a satisfactory system of internal accounting and administrative control include an organizational structure that segregate duties to ensure the adequate protection of State assets.

RECOMMENDATION

For the cashiering unit, special attention needs to be placed on improving the processing of license agents' monthly remittances. One individual should open and sort the mail. The monthly reports and checks should be batched and separated. Checks should be given to a second individual for processing and the monthly reports should be given to a third person for key entry. A fourth individual should be responsible for reconciling batch totals to deposit information. A fifth person should "wand" the books out of inventory. Lastly, a sixth person should process the actual deposits.

For the special permits unit, one individual should review the applications, a second individual should enter the information into the database and a third individual should issue the printed license. The person who issues the license should not have access to change the data base and the individual with data base access should not be the individual issuing the license.

For the warehouse, the LRB needs to review the duties of all employees who are responsible for processing sales or maintaining inventories. No one individual can be responsible for pulling, checking, or shipping an order.

LRB

Response: Disagree. The LRB currently has three staff performing these duties. Having six employees to perform six different separate duties for one process is almost impossible to implement. With the feedback from license agents and permittees, reviewing employees' signed Declarations, increased security cameras, monitored key card system, and blue lining; three staff performing these duties is adequate.

AB

Comments: The AB disagrees with the LRB response and continues to recommend these separation of duties be implemented to the extent possible with existing staff.

FINDING 6 CASHIERING CONTROLS

The LRB did not always ensure that CSRs correctly key entered payments or minimized overages and shortages. During our testing of front counter sales receipts, we noted that in 8 out of 60 (13 percent) sample items tested, the cash and check tender totals did not agree with the actual deposit information. For these 8 items, we noted 7 overages and 1 shortage.

Although the dollar amounts in the errors noted were not material, employees have been able to embezzle funds in the past that could have been detected had cash tender totals been properly scrutinized.

The LRB's management has improved in its review of cash funds. For example, the error rate was reduced from 33% to 13% when compared to the previous audit (WA-03-11). However, the LRB does not have written policies and procedures that clearly identify performance expectations for its CSRs, including possible corrective action that would be taken for excessive tender total errors and for excessive overages and shortages.

SAM, Section 8022, requires that the LRB maintain records containing tender total information. These records should be maintained in a manner whereby they can be readily audited. Section 8070, requires each department to establish standards of performance for their cashiers and prescribe corrective action to be utilized when performance standards are not satisfied.

RECOMMENDATION

The LRB should continue its current practices ensuring that cash tender totals are correct and to minimize the instances that cash overages and shortages occur. The LRB should implement policies and procedures that clearly identify performance expectations for its CSRs, including possible corrective action that will be taken if their cash tender totals do not agree and for excessive overages and shortages.

LRB

Response: Agree. Although the LRB has reduced the error rate by 20% since the previous audit and the errors are not material, the LRB will revise our policy and procedures to define the LRB's expectations.

AB

Comments: The LRB response satisfactorily addresses our recommendation.

ATTACHMENT A

AUDITEE RESPONSE

Memorandum

To: Mr. Brian Kwake, Chief
Audits Branch

Date: October 8, 2008

From: Mr. James Fong, Chief *JF*
License and Revenue Branch
Department of Fish and Game

Subject: License and Revenue Branch Audit Response

Thank you for the opportunity to respond to the License and Revenue Branch audit. We appreciate the time and effort your staff provided to complete the audit that we requested. Below are the audit recommendations and LRB's responses.

Finding One—Missing Inventory:

Recommendation: The LRB should attempt to locate the missing inventory. If the inventory cannot be located, management should remove the missing inventory using the declaration process. Thereafter, management should ensure its internal control system is adequate to track all inventories, assign responsibility, and to promptly identify missing or misplaced inventory.

To accomplish this, the AB recommends the LRB determine whether it is cost beneficial to continue to run the warehouse without an inventory custodian or as a practical matter, the LRB should consider assigning an individual the responsibility of warehouse inventory custodian.

Response: Agree. The LRB has improved our inventory controls. We disagree that the \$403,000 could not be located. Of the \$403,000 in missing licenses and permits, only \$1,420 was unaccounted. The remaining \$401,940 inventory was accounted and verified after these items were expired or near expired:

2005 hunting item: \$77,200. Reviewed and verified on May 8, 2006.

2006 hunting item: \$324,740. Reviewed and verified on July 12, 2007 and September 27, 2007.

The \$401,940 was not missing inventory, but merely a lack of proof of destruction.

The LRB cannot locate our destruction records of these expired licenses and permits. We have improved our record keeping of destroyed inventory using revised logs, spreadsheets, and having additional authorized signatures. The LRB will review whether there should be a warehouse inventory custodian.

Mr. Brian Kwake
October 8, 2008
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Finding Two—Inventory Controls:

Recommendation: The LRB should have independent third parties perform physical inventories of stored licenses, permits, tags, and stamps assigned to the warehouse. These physical inventories should be performed at least semi-annually in accordance with the LRB's policies, and the physical inventory should be reconciled with the balances per the LAS. In addition, the LRB needs to limit access to partial books that still contain valid licenses, stamps, and permits.

Response: Disagree. *The LRB currently performs a physical inventory in accordance with the LRB's policies. In addition, the LRB has an inventory control procedure called "Blue Lining". Blue lining is a cost effective way to deter fraud by defacing inventory (drawing a permanent blue marker across all current licenses, stamps, cards, etc.). Unauthorized individuals (internal and external) cannot use or sell these blue lined items in the black market. All license agents are encouraged to blue line each item returned to the LRB. If the items are not blue lined when it reaches the LRB, the LRB staff blue lines each item. The Chief of Enforcement is fully aware of this procedure to ensure hunters and anglers are not using blue lined licenses, stamps, and permits. The LRB implemented this procedure on November 15, 2006, and informed the Chief of Enforcement, Deputy Director of Administration, and the Assistant Deputy Director of Fiscal. On May 30, 2008, the LRB sent a reminder to the Chief of Enforcement of this on-going procedure. The license agents received notification of the blue line procedure from the License Agent News letter in June 2008 and it is also stated in the License Agent Manual. Although this inexpensive approach is not a perfect system, the LRB disagrees that "LRB does not adequately protect partial books that contain valid licenses and permits".*

The LRB will review the recommendation of having a third party perform physical inventories.

Finding Three—Regional Office Oversight:

Recommendation: The LRB should ensure the regional offices submit partial book reports monthly and expired books at least quarterly. The LRB should follow its policies and procedures as outlined in the License and Revenue Memo 01-02 and take progressive action against non-compliant regional offices.

Response: Agree. *The LRB will request assistance from the executive committee to enforce the LRB's Policies and Procedures for Regional Office's counter sales.*

Mr. Brian Kwake
October 8, 2008
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Finding Four—Security Violations:

Recommendation: The LRB should improve its physical security procedures and ensure the combination to safes be known to the head cashier, backup cashier, and two supervisors. A record should be kept showing the date the combination was last changed and names of persons knowing the present combination. The combination should be changed when it becomes known to an excessive number of employees, or if any employee having knowledge of the combination leaves the employ of the agency, or no longer requires the combination in the performance of his or her duties. In addition, the LRB should ensure proper physical security is exercised in minimizing access to the mail room and protective procedures relative to secure locations within the warehouse are followed.

Response: Agree. The LRB changed the combinations to the safes on April 24, 2008. A log showing the date the combination was last changed and the names of the persons knowing the combination is located in the LRB's Administrator Officer's office.

Finding Five—Separation of Duties:

Recommendation: For the cashiering unit, special attention needs to be placed on improving the processing of license agents' monthly remittances. One individual should open and sort the mail. The monthly reports and checks should be batched and separated. Checks should be given to a second individual for processing and the monthly reports should be given to a third person for key entry. A fourth individual should be responsible for reconciling batch totals to deposit information. A fifth person should "wand" the books out of inventory. Lastly, a sixth person should process the actual deposits.

For the special permits unit, one individual should review the applications, a second individual should enter the information into the database and a third individual should issue the printed license. The person who issues the license should not have access to change the data base and the individual with data base access should not be the individual issuing the license.

For the warehouse, the LRB needs to review the duties of all employees who are responsible for processing sales or maintaining inventories. No one individual can be responsible for pulling, checking, or shipping an order.

Response: Disagree. The LRB currently has three staff performing these duties. Having six employees to perform six different separate duties for one process is almost impossible to implement. With the feedback from license agents and permittees, reviewing employees' signed Declarations, increased security cameras, monitored key card system, and blue lining, three staff performing these duties is adequate.

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Finding Six—Cashiering Controls:

Recommendation: The LRB should continue its current practices ensuring that cash tender totals are correct and to minimize the instances that cash overages and shortages occur. Lastly, the LRB should implement policies and procedures that clearly identify performance expectations for its CSRs, including possible corrective action that will be taken if their cash tender totals do not agree and for excessive overages and shortages.

Response: Agree. *Although the LRB has reduced the error rate by 20% since the previous audit and the errors are not material, the LRB will revise our policy and procedures to define the LRB's expectations.*

In conclusion, with the new facility/staff and my recent arrival to the branch, it was greatly appreciated that your staff was able to identify areas of improvement. I have already discussed your recommendations with my staff and have made the appropriate changes. If you need additional documentation regarding the LRB's responses, please feel free to contact me at (916) 928-6888.

cc: Mr. John McCamman
Ms. Helen Carriker